Hanover
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Weekly Commentary, Selected Financial Data, and Business Indicators

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Food Prices May Rise . . .

With more stable food prices a major factor in this year's slowing of inflation, the question arises—how much longer can this continue? The cost of food at grocery stores has risen at an annual rate of only 3.1 per cent since January, in sharp contrast to the almost 20 per cent annual rate of rise registered during the second half of last year. Additional stability would appear likely, since in June, farm prices declined by 0.7 per cent, marking the sixth consecutive month of slumping prices. The sharpest drops were registered by such feedgrains as corn, soybeans and wheat.

Although rising costs associated with food marketing, processing and distribution have offset most of the price declines at the farm level—resulting in widening spreads between farmgate and retail—food prices nevertheless have had a significant dampening effect on the overall rate of inflation. The major factor responsible for the decline in farm commodity prices so far this year has been a sharp rise in supplies of meat and grains. In response to earlier increases in production costs, farmers were forced to

FOODSTUFFS SPOT MARKET INDEX
(1967=100)

sell their products instead of storing them, thus sending supplies to the marketplace. Now, expectations of abundant wheat supplies from the current harvest and a deterioration of soybean export prospects are further depressing these prices. Furthermore, the sharp appreciation of the external value of the dollar has and will continue to inhibit agricultural exports, thus leaving greater supplies for domestic consumption, further dampening prices.

. . . But Only Moderately

It is becoming more likely, however, that this agricultural price stability may be about to end. Some upward pressures on food prices at grocery stores are expected during the second half of this year. The rise should be more modest than in last year's second half—but sharper than in the first half of 1981. For example, beef prices have already begun to rise again following a three-month decline. Currently, beef supplies are declining as a result of ranchers placing more animals in feedlots and breeding herds, in an effort to rebuild herds rather than bringing them to market. In April and May, cattle feeders in seven major states placed 22 per cent more cattle on feed than a year ago.

Adding to the near-term upward pressure on beef prices will be a decline in pork production, causing pork prices to rise. As the price differential between beef and pork narrows, consumers tend to step up their demand for beef, thus boosting its price. The nation's hog inventory in March dropped nine per cent compared with year-ago levels, while breeding stocks declined almost 11 per cent. As a result of this decline in breeding stocks, pork production may drop as much as ten per cent in the fourth quarter. This tightening of supplies has already caused hog prices to rise to $47.20 a hundredweight in June from $49.90 in May and $33.10 a year ago.

The decline in beef and pork supplies may also boost the price of chickens despite an expansion in broiler production. Broiler producers are lifting output in anticipation of reduced pork supplies, since chicken is frequently consumed as a less expensive substitute for red meat. If profit margins for producers improve (they have been caught in a cost-price squeeze since last year as the rise in cost of feed and other inputs has outpaced the rise in prices they receive), output for 1981 may be as much as five per cent above last year's level.

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The major determinant of the absolute level of meat prices will be the price and availability of feedgrains. Grain prices affect food prices through their effect on livestock profitability, and therefore livestock production. Although the 1981 grain harvest in the U.S. may be affected by the recent substantial rains in the major farming areas, it is still expected to exceed last year's drought-affected crop. The Department of Agriculture currently expects winter wheat production to reach a record high of 2.01 billion bushels—six per cent greater than last year. In the 15 major producing states, harvesting is ahead of schedule, although in some marginal producing areas harvesting has been delayed due to heavy rains. The spring wheat harvest is also ahead of schedule, as recent rainfall improved crop conditions and promoted growth.

According to the Agriculture Department's survey, which was conducted on June 1, farmers intend to increase the amount of land devoted to corn planting by two per cent to 84.7 million acres—the largest acreage in 32 years. This could raise the harvest of this key feedgrain to 7.6 billion bushels from last year's 6.6 billion. Although corn planting neared completion in all major producing areas by the end of June, heavy rains have caused concern. Wet soil delayed field work in Indiana where only 90 per

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/24/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	130.509	+ 1.147	– 1.189
Loans to Depository Inst.	2.305	+ .410	+ 1.987
Float	2.618	– 1.010	– 1.265
Total Reserve Bank Credit	145.990	+ 1.337	+ 4.405
Treasury Deposits with Federal Reserve Banks	3.021	– .175	– .171
Currency Outside Banks	123.510	+ .727	+ 7.894
Member Bank Reserves:			
Required	40.285	+ .062	– 2.795
Excess (Deficiency)	.405	+ .116	+ .237
Total Reserves Held	40.690	+ .178	– 2.558
Net Borrowed Reserves	1.594	+ .267	+ 1.453
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.846	– .007	+14.718

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (6/17/81)	362.0	– 4.2‡	– 2.3‡
M-1B (6/17/81)	429.0	+ 5.9‡	+ 9.4‡
M-2 (May '81)	1,743.7	+ 11.3	+ 11.2
L (March '81)	2,442.3	+ 10.9	+ 10.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 7/2/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.15%	14.00%	13.30%
* Federal Agencies	14.35	14.60	15.00
* Project Notes—Taxfree (46% Taxable Equivalent)	12.78	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.50	16.88	16.38

‡Finance Company Paper—Prime

5- 14 days	18.50%
15- 29 days	18.13
30- 59 days	17.00
60- 89 days	15.00
90-179 days	14.00
180-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances

Aug.	17.50%
Sep.	17.00
Oct.	16.55
Nov.	16.35
Dec.	16.00
Jan.	15.70

‡Industrial Paper—Prime

30- 89 days	17.75%
90-120 days	16.75

†Federal Funds Effective Rate 20.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81	8.4%	4.8%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons)†	Jun '81n	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force†	Jun '81n	7.3%	7.6%	7.5%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	May '81n	135.2	137.7	123.0
Industrial Production Index (1967=100)†	May '81	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	–$ 1.67
U.S. Merchandise Trade Balance†	May '81n	– $2.44	– $2.47	– $2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81	1,152	1,340	938
New Construction Expenditures*	May '81n	$237.3	$248.9	$218.9
Total Business Inventories†	Apr '81	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

cent of intended acreage was planted, and in Ohio where 85 per cent has been completed. If fields do not dry to more normal levels soon, the remaining acreage may be put under soybean cultivation—soybeans adjust to a shorter growing season.

In sum, although it is difficult to estimate the precise size of this fall's harvest in view of the current adverse weather conditions, it does appear that supplies of grains—especially corn—will be plentiful. What is more, winter wheat, which makes up about three-quarters of the U.S. wheat crop, is now being harvested and is expected to be a record. This, in turn, may result in a greater number of animals put into feedlots, thus eventually expanding supplies. As a result, these developments should help moderate whatever rise in prices occurs in grocery stores during the next six months.

Plunging Commodity Prices . . .

Among the recent international economic developments that have been overlooked are the implications of plunging international commodity prices for less developed countries (LDCs). For the most part, the LDCs are exporters of primary materials and basic commodities—the prices of which, in many cases, have dropped precipitously in the last 12 months with an obvious effect on the LDCs' current

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/17/81)	117,544	– 1,394	+24,309
New York City (6/17/81)	27,553	– 438	+ 5,229
Commercial Paper (6/17/81)	146,910	+ 1,755	+21,877

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/81)	178,286	+ 2,291	+19,719
New York City (6/17/81)	52,621	+ 925	+ 5,681

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/81)	440,108	+ 4,097	+45,072
New York City (6/17/81)	106,109	+ 2,693	+16,148

Financial Markets

	Thursday 7/2/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.16%	+ .35	+ 6.94
180-Day Bills†	15.46	+ .40	+ 7.07
Longest Bills†	15.05	+ .38	+ 6.47
Recent Issues:			
14⅝s 6/30/83	14.62	– .94	
14s 6/30/85 (When Issued)	14.52	NA	
14½s 5/15/91	13.94	+ .27	
13⅞s 5/15/11	13.25	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (7/1/81)	10.85%	+ .11	+ 2.97
Blue List Total ($ Million)	$1,113	– $ 12	– $ 59
30-Day Visible Supply ($ Million) Total	$1,696	– $194	+ $ 35
	$2,809	– $206	– $ 74
Corporates:			
Moody's Aa Composite (7/1/81)	14.56%	+ .22	+ 3.26
Money Mgr.–30-Day Supply ($ Million)	$8,250	+ $405	+ $4,035
Stocks:			
Dow-Jones Averages:			
Industrials	959.19	– 33.68	+ 70.28
Transportation	409.60	– 9.77	+ 123.83
Utilities	106.74	– 2.02	– 8.85
65 Stocks	372.41	– 10.82	+ 49.05
Standard and Poor's 500 Stocks	128.65	– 4.05	+ 11.85
N.Y.S.E. Composite Index	74.73	– 2.24	+ 7.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	34,798	– 9,934	– 6,477

* 46% Taxable equivalent 20.09%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/3/81	Week Ago
Overnight	19.25%	19.00%
1 month	18.75	18.75
3 month	18.19	18.50
6 month	17.81	17.75
1 year	16.81	16.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	15.10%
Long Term (7 to 15 yrs.)	14.40	14.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/2/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02531	39.51
Canada	.8319	1.2021
Denmark	.1322	7.5643
France	.1747	5.7250
Germany	.4149	2.4105
Italy	.0008325	1201.20
Japan	.004388	227.90
Mexico	.04082	24.50
Netherlands	.3731	2.6800
Switzerland	.4833	2.0693
U.K.	1.8940	.5280

accounts. In an effort to generate sufficient foreign exchange to pay for higher oil import costs, other necessary imports and the rising cost of debt servicing, many LDCs have increased exports of basic commodities in spite of falling demand and declining prices. To the degree that a particular LDC's exports are concentrated in a single, or a small number of export commodities, these price declines have had a major impact on their domestic economies as well.

In the last year, for example, coffee prices have fallen by 51 per cent as supplies far exceeded consumption. Sugar prices, which were strong in 1980, have dropped sharply in 1981. Cocoa, an important export commodity for many countries in Africa, has shown a price decline of over 27 per cent in the last year—and over 50 per cent since the beginning of 1980. Copper prices, which were depressed early in the year, have recovered somewhat in recent months, but they are still running well below their 1980 averages. Last week, for example, copper cathodes were selling at 15.1 per cent below the price at the beginning of 1980.

Despite the current bleak outlook, however, commodity prices are capable of equally rapid recovery. For example, copper prices jumped about 46 per cent in 1979, reflecting high world demand and speculative stockbuilding that year. Coffee prices skyrocketed in 1976 and 1977 after a severe frost in Brazil cut deeply into the harvest. Sudden and sharp changes in commodity prices are frequent and result from a wide range of causes—climatic, economic, political and social. In spite of numerous cartels and international agreements by producers and consumers, basic commodity prices have only rarely been stabilized.

. . . Affect LDC Earnings

Many, if not most, LDCs are dependent on one or a few predominant exports for a large part of their foreign exchange earnings. In 1980, 46 per cent of Chile's export earnings came from copper exports. In the same year 11 per cent of the Philippines' export earnings were from sugar and another nine per cent were from copper. Ghana's exports of cocoa generally account for over 60 per cent of foreign earnings. Brazil's coffee exports contributed 12 per cent to export earnings in 1980 and sugar another five per cent. In the Ivory Coast, cocoa and coffee account for well over half of the country's foreign exchange earnings. ■

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